

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

First-Class Mail and Periodicals
Service Standard Changes, 2021

Docket No. N2021-1

INITIAL BRIEF OF THE PUBLIC REPRESENTATIVE

(June 21, 2021)

Samuel Poole
Public Representative

Samuel Koroma
Chris Mohr
Assisting the Public Representative

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I. INTRODUCTION

In this proceeding, the Postal Service seeks an advisory opinion from the Commission regarding planned changes to the service standards for First-Class Mail and end-to-end Periodicals.¹ As explained more fully below, the Postal Service seeks to lengthen the service standards for certain mail within these products in order to transition mail volumes from air transportation to surface transportation. These changes are a component of the Postal Service's larger plans to reorient its network to the current needs of mailers and ensure a sustainable business model moving forward.²

In the following sections, the Public Representative will provide background on how proceedings such as this one work, the Postal Service's current financial situation, and the Delivering for America plan. These comments will also outline the proposed changes, explain what mail may be impacted by them, and review the Postal Service's reasoning as to why these changes are necessary. The Public Representative will then provide analysis of the Postal Service's justification for these changes and evaluate whether they are in the general public's interest.

II. BACKGROUND

A. The Commission's Role

At the outset, it is important to clarify the Commission's, and hence the Public Representative's, roles in proceedings like the one before the Commission in this docket. Members of the public engaging with the Commission are often unclear regarding these roles and a brief explanation of these roles is warranted.

¹ United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, April 21, 2021 (Request).

² See United States Postal Service, Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence, March 23, 2021, available online at https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-ForAmerica.pdf (Delivering for America Plan).

Cases such as this one, referred to as nature of service or “N” cases, involve nationwide changes in the nature of postal services. In order to make these changes, the Postal Service is required to file a proposal with the Commission, seeking an advisory opinion under 39 USC § 3661. The Commission does not have the power to reject these types of proposals; its role is strictly to advise the Postal Service.

The Public Representative is a member of the Commission’s staff who is appointed to represent the “general public’s interests” pursuant to 39 CFR § 3000.114. This staff member is distinct or “walled off” from the decisional staff and presents comments on their own behalf or on behalf of a small team of staff members. Part of this role is acting as a liaison to the general public.

The responsibility of representing the interests of the general public is a weighty one, especially given that those interests can require difficult tradeoffs in the postal context. The Public Representative must balance these tradeoffs with an eye towards the best possible, long-run outcome for the public.

In summary, this proceeding is designed to present a public forum for members of the public to engage with the Postal Service and provide feedback regarding its proposal in this case. The Postal Service has stated throughout the process that it will consider this feedback and consider how to adapt its proposal. Nevertheless, it is important to reemphasize that the Commission’s role here is strictly advisory and that the statute does not give it the power to reject the Postal Service’s proposal.

B. The Postal Service’s Current Financial Situation

The recent financial challenges faced by the Postal Service have been well documented. Changing market trends have led to ongoing declines in profitable market dominant volumes. The impacts of COVID-19 has exacerbated these impacts. As outlined in the Commission’s FY2020 Financial Report,³ these developments have heightened a precarious financial situation for the Postal Service:

³ Financial Analysis of the United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2020, April 26, 2021 (Financial Report).

- “In FY 2020, the Postal Service recorded a net loss from operations of \$3.6 billion, a \$0.4 billion decline in profitability.” *Id.* at 4.
- “When Non-operating Expenses (NOEs) are included, the net operating loss of \$3.6 billion becomes a total net loss of \$9.2 billion.” *Id.*
- “The net deficit was \$80.7 billion, consisting of an accumulated deficit of \$83.8 billion offset by capital contributions of \$3.1 billion. This is primarily the result of multiple years of net losses that started in FY 2007.” *Id.* at 6.
- “Market Dominant revenue decreased by \$4.0 billion in FY 2020, driven by pandemic-related business closings.” *Id.*
- “Net operating expenses stood at \$76.6 billion, which were \$2.4 billion greater in FY 2020 than the prior year, and \$1.0 billion more than the pre-pandemic Integrated Financial Plan.” *Id.* at 7.

A primary driver of the Postal Service’s financial situation is the decline in First-Class Mail volume. The Postal Service states that “First-Class Mail volumes – which provide the greatest contribution towards covering the costs of maintaining our universal service network - have declined by 45 percent since 2007.”⁴ First-Class Mail is the Postal Service’s most profitable product, with an approximate contribution of \$12.0 billion in FY 2020.⁵

In addition to declining mail volumes, the Postal Service points to legal constraints, network and logistic adaptation, competition and its inability to meet existing service standards as contributing factors.⁶ The Postal Service projects that these challenges will result in a cumulative loss of approximately \$160 billion by 2030 if the Postal Service does not adjust its operating model. *Id.* at 30.

⁴ Delivering for America Plan at 9.

⁵ Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1 – FY 2020 Postal Service’s Product Finances.

⁶ Delivering for America Plan at 3.

It is important to understand that the Postal Service's financial situation is complex, with many contributing factors. This complexity often frustrates attempts to discern workable solutions to these issues. Nevertheless, it is clear from declining market dominant volumes that the demands of mailers have shifted, will likely continue to shift, and that the Postal Service must adapt to those changes and better align itself with the needs of mailers going forward to establish a sustainable business model going forward.

C. The Postal Service's "Delivering for America" Plan

On March 23, 2021, the Postal Service published the Delivering for America plan, a ten-year strategic plan that proposed changes intended to achieve financial stability and service excellence. This plan is an attempt by the Postal Service to achieve modernization and address the changing needs of the nation and customers.

The Delivering for America plan plainly states that the Postal Service "is in crisis" because "business and operating models are unsustainable and out of step with the changing needs of the nation and our customers."⁷ The Postal Service states that it has experience "steep annual financial losses in the billions of dollars, unmet service performance goals, and less market relevancy as consumer behaviors have changed." *Id.* With regard to service standards, the plan explains that:

"[T]he Postal Service sets standards for mail delivery so that customers and mailers can expect consistent and predictable delivery. However, as noted above, we have not met current targets for First-Class Mail composite or First-Class Mail 3–5-day service standards over the past eight years. The current standards do not reflect dramatically declining mail volumes, and require the Postal Service to use complex, high cost and unreliable transportation networks. They are simply unsuitable for setting realistic expectations for timely and reliable mail delivery in today's environment. Furthermore, the cost to maintain the current, unattainable service standards will continue to increase as mail volume

⁷ Delivering for America Plan at 4.

continues to decrease. The need to ensure reliable service, while improving operational efficiency and precision, requires that these standards be updated.”

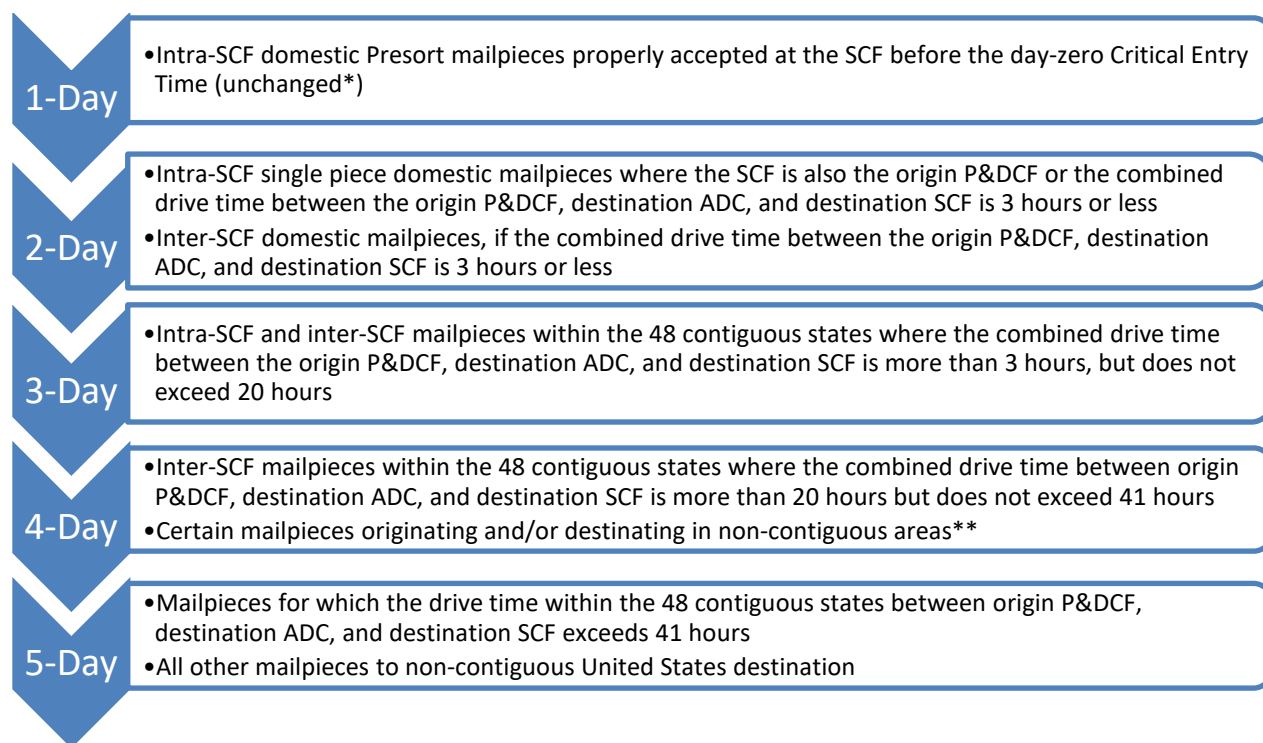
Id. at 25-26. The Postal Service contends that these same concerns apply to end-to-end Periodicals, which are also affected by the proposed changes in this docket.

The proposed service standard changes in this dockets are components of the broader Delivering for America plan. Although the plan may be controversial, it is important to note that this docket only pertains to the proposed service standard changes for First-Class Mail and end-to-end Periodicals. Any other components of the Delivering for America plan that come before the Commission will be evaluated on their own merits and given thorough administrative process.

III. THE POSTAL SERVICE'S PROPOSAL

In this docket, the Postal Service proposes changes to the service standards of a portion of First-Class Mail and end-to-end Periodicals. Broadly, the Postal Service seeks to narrow the two-day and three-day standards for First-Class Mail delivery and apply four-day and five-day standards for First-Class Mail traveling longer distances. For end-to-end Periodicals, a three-to-six-day service standard would be applied to Periodicals merged with First-Class Mail pieces for surface transportation, with the standard specifically equaling the sum of one day plus the applicable First-Class Mail service standard. Specifically, the Postal Service proposes to apply the following standards to First-Class Mail:

Figure 1: Proposed Postal Service First-Class Mail Service Standards



Request at 5-6.⁸

These changes will enable the Postal Service to transition mail volumes from air transportation to surface transportation. For First-Class Mail letters and flats, the Postal Service currently has approximately 21 percent of volume being shipped through air transportation and 79 percent of volume through ground transportation. Under these changes, the volume shipped through air transportation would be reduced to approximately 12 percent and ground transportation increased to 88 percent.⁹

It is important to reiterate that these proposed changes only affect a portion of First-Class Mail and end-to-end Periodicals. They will not affect other mail or even some mail within the First-Class and Periodicals classes. For example, the Postal

⁸ “SCF” refers to “Sectional Center Facility,” “P&DCF” refers to Processing & Distribution Center or Facility, and “ADC” refers to Area Distribution Center. *Id.* at 3.

⁹ Direct Testimony of Robert Cintron on Behalf of the United States Postal Service (USPS-T-1), April 21, 2021 at 30.

Service “[does] not expect an impact on prescription fulfillment and medical supply mail due to this proposal, since most of those products are shipped as packages.”¹⁰

These proposed service standards are projected to affect 39 percent of First-Class Mail and 7 percent of end-to-end Periodicals. They will impact 49 percent of Presort Flats and 47 percent of Presort Letters and Cards and 25 percent of Single-Piece Flats and 22 percent of Single-Piece Letters and Cards.¹¹ These changes will have significant impacts for some specific subgroups of mailers.

Due to the expected delay in delivery, retail customers may have to enter mail into the system at an earlier date than currently. To mitigate the impact from this change, “[t]he Postal Service will work to inform retail customers about the service changes, so that they can set appropriate expectations for delivery times.”¹² Remittance mail will be affected and 34 percent of remittance mail is expected to be downgraded.¹³ This will reflect realignment of remittance mail processing and transportation with all other First-Class Mail processing and transportation.¹⁴ The Postal Service states that it will work with industry to provide timely information in case business customers need to make mailing process changes.¹⁵ Mail volume on commercial air is expected to decrease while surface transportation of mail is expected to increase.¹⁶ The Postal Service states that it will work with its contractors to ensure that changes are communicated effectively and that negative impacts on suppliers from abrupt changes are minimized.

The effects of these proposed changes are represented visually below:

¹⁰ Response to POIR No.1, question 10.

¹¹ Response to POIR No.1, question 28; Response to POIR No.3, question 24.

¹² USPS-T-1 31.

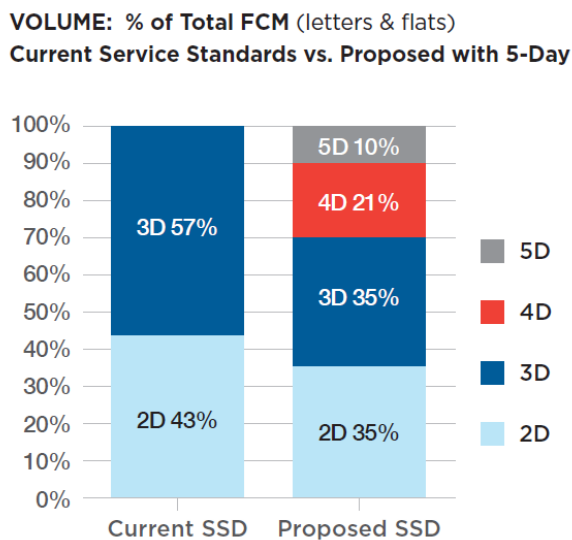
¹³ See Library Reference USPS-LR-N2021-1_3.

¹⁴ The Postal Service presently prioritizes remittance mail such that certain remittance mail volume is delivered more quickly than is required under First-Class Mail service standards. The Postal Service intends, going forward, to transport remittance volumes together with all other First-Class Mail.

¹⁵ USPS-T-1 31.

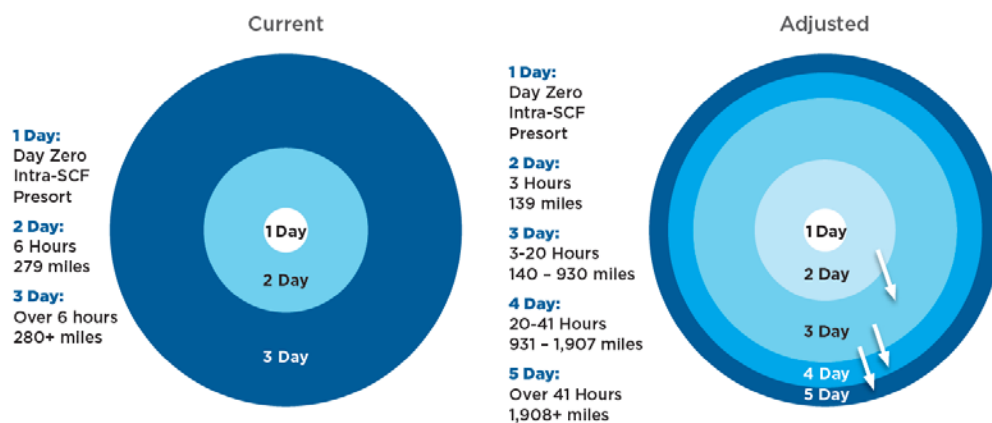
¹⁶ Response to MH/USPS-T2-1.

Figure 2: Postal Service Representation of First-Class Service Standard Shift



Source: Delivering for America Plan at 26

Figure 3: Postal Service Representation of What Constitutes New Service Standard Classification



Source: Delivering for America Plan at 54

In short, these proposed changes will lower the current service standards for significant volumes of the affected mail. The Postal Service contends that these changes are necessary for a number of reasons that are explored below.

IV. THE POSTAL SERVICE'S POSITION

The Postal Service argues that the proposed changes to service standards are necessary for it to provide reliable service through a sustainable business model, in accordance with the Delivering for America plan. The Postal Service contends that current service standards are “unattainable,” citing its failure to meet the First-Class Mail service standards over the past eight years.¹⁷ The Postal Service states that current service standards “do not reflect the declines in mail volume, and make it very difficult for the Postal Service to provide reliable and consistent service.” *Id.* at 6. The Postal Service contends that “they are simply unsustainable for setting realistic expectations for timely and reliable mail delivery in today’s environment.”¹⁸ The Postal Service summarizes the problem as follows:

“Declining mail volumes reduce the revenues needed to offset the costs of maintaining a network designed around the current service standards. The Postal Service has not demonstrated a capability of consistently achieving current service standards at the existing performance targets. Declining volumes, although not negatively impacting capability, strengthen the business case to change current service standards.”

Response to APWU/USPS-T1-1.

The Postal Service contends that “attempting to meet the current standards results in high costs and inefficiencies in the transportation network, which is characterized by an over-reliance on air transportation and low utilization of truck capacity in long-haul surface transportation.” *Id.*¹⁹ As the Commission has noted, “[t]he Postal Service does

¹⁷ Response to PR/USPS-T4-1.

¹⁸ USPS-T-1 at 25.

¹⁹ The Commission tracks the gap between how much air capacity is requested by the Postal Service and how much it actually uses. A more in-depth analysis by the Commission pertaining to the air transportation woes faced by the Postal Service can be found in the FY 2020 Annual Compliance Determination Report. Docket No. ACR2020, Annual Compliance Determination (FY 2020 ACD), March 29, 2021 at 109-111.

not have its own air fleet; instead, it contracts with Federal Express Corporation, UPS, commercial airlines, and supplemental charters for space on passenger flights and cargo-only flights to transport some of the mail to a destination processing facility.”²⁰ The Postal Service concludes that “the air network has not proven effective and continues to struggle to meet the Post Service’s operating plans and desired service performance levels, particularly since the onset of the pandemic.”²¹

The Postal Service also cites the challenging circumstances discussed above, noting that it “is delivering considerably less mail to more addresses at a time when the evolving mail mix has been generating less revenue and contribution.” *Id.* The Postal Service states that it must “implement operational changes to enhance efficiency and reduce the cost of operations, while enhancing the reliability of service, in order to ensure the long-term sustainability of the universal service network” and that “[t]his initiative is just such an operational change.”²²

The Postal Service argues that these changes will allow it to make several distinct operational improvements. First, the Postal Service contends that it will allow the Postal Service to increase the volume of First-Class Mail moved by surface transportation, which is more cost effective and reliable than air transportation. Second, the Postal Service argues that proposed service standards will enable the Postal Service to improve its service capability by both (a) increasing the efficiency of the surface transportation network through improved routing efficiency and utilization of vehicle volume and (b) more realistically align the Postal Service’s First-Class Mail service standards with the Postal Service’s operational capabilities in light of declining mail volumes and prior network consolidation and rationalization efforts. Third, and with respect to the adjustments to noncontiguous states and territories, adding a day to the service standards aligns with the changes to the proposed service standards for the contiguous United States and adds opportunity for the Postal Service to utilize lower

²⁰ FY 2020 ACD at 109.

²¹ Response to MH/USPS-T1-13.

²² Request at 8.

cost commercial air carriers rather than higher cost cargo air carriers. Overall, the Postal Service takes the position that these changes will result in network operations that better match current and projected mail volumes, and the Postal Service anticipates that the changes will result in cost savings and a network that is more consistent, reliable, and efficient.

The Postal Service also presents a financial analysis that supports its decision to change these standards. Given that the proposed service change will lead to an average increase of 19 percent²³ in the number of delivery days, the Postal Service evaluated the potential impact of further erosion of First-Class Mail and Periodicals volumes and on revenue and contribution. The Postal Service found that mail volume is less sensitive to changes in delivery times as compared to other factors of demand.²⁴ The Postal Service concluded that electronic diversion is the primary factor driving volume loss. *Id.*

The Postal Service's analysis shows a combined revenue loss of \$254.7 million and a net negative contribution of \$101.1 million as a result of these changes. However, this is offset by transportation cost savings of \$279.6 million, resulting to a net positive financial impact of \$169.5 as a result of the service change request. See Table 1, Table 2, and Table 3 below for a detailed analysis.

²³ Response to POIR No. 3, question 28.

²⁴ Direct Testimony of Thomas E. Thress, on Behalf of the United States Postal Service (USPS-T-5), April 21, 2021 at 20-22.

**Table 1: Estimated Financial Impact of Proposed Service Standard Changes
(Contribution)**

	Contribution (millions)
First-Class Mail	\$ (110.9)
Periodicals Mail	\$ 0.8
Net Impact	\$ (110.1)

Source: Response to POIR No. 3, question 28.

**Table 2: Estimated Financial Impact of Proposed Service Standard Changes
(Changes in Air and Surface Transportation Network) ²⁵**

	Expected Annual Cost Savings (millions)
Air Transportation	\$ 196.10
Surface Transportation	
Inter-Area	\$ 64.8
Inter-Cluster	\$ 8.0
Inter-P&DC	\$ 10.7
Total Cost Savings	\$ 279.6

²⁵ Source: Air Transportation – Witness Whiteman USPS-T-2 at 11. USPS-LR-N2021-1-NP2 Surface Transportation – Library Reference USPS-LR-N2021-1-3, Excel file “3_SSd_5D_Vol_Impacts_CONSUS.xlsx”, tab Finance_Summary Surface.

Table 3: Net Financial Impact

	Net Impact (millions)
Loss in Mail Volume	\$ (110.1)
Transportation Cost Savings	\$ 279.6
Net Impact	\$ 169.5

Source: Commission Summary

Table 1 shows the financial impact (loss/gain in contribution) due the decline in mail volume that results from the change in service standard. Table 2 represents the estimated financial impact (air and surface transportation cost savings) that results from shifting volume from air to surface and enhancing the efficiency of the surface network. Table 3 shows the net financial impact with an estimated overall improvement in net income of \$169.5 million.

The Postal Service’s financial analysis is supported by market research, which the Postal Service states “has consistently found that reliability, ‘keeps my mail safe,’ and ‘deliver[ing] the mail when expected’ are more important to customers than ‘fast’ delivery time.”²⁶ The Postal Service provided additional clarification on the utilization of the Key Driver Index Score by survey respondents in the Brand Health Tracker and respondents’ overall satisfaction with mail service and agreement with key attributes including “is reliable” and “provides faster delivery” amongst others. The Postal Service reports that, using a full year’s worth of data, “is reliable” and “provides faster mail delivery” were the top two drivers of overall satisfaction, however, “is reliable” slightly edges out “provides faster delivery” as incrementally more predictive of overall customer satisfaction.²⁷

²⁶ Direct Testimony of Steven W. Monteith on Behalf of the United States Postal Service (USPS-T-4) April 24, 2021 at 13; USPS-T-4, Attachment 1 at 33.

²⁷ Response to POIR No. 3, question 27.

Furthermore, the Postal Service cites a United States Postal Service Office of the Inspector General (USPS OIG) report that noted that 80 percent of respondents to the Postal Service's FY 2018 Delivery survey are generally satisfied with their mail and package delivery, even though the Postal Service has not met a majority of its service performance targets in the last several years.²⁸ The USPS OIG concluded that "[t]his satisfaction rate is significant and may suggest that service performance targets are not always align with customer expectations." *Id.* In a recent USPS OIG audit report, the USPS OIG noted that "[w]hile existing service standards for First-Class Mail is three to five days we completed a national representative survey in 2019 that demonstrated that 71 percent of respondents expected their sent mail to arrive in seven days."²⁹ The Postal Service concludes that "many customers' expectations of delivery times may already be aligned with proposed service standard changes."³⁰

The Postal Service further stated that "while the proposed changes will increase our service standards for a portion of FCM and end-to-end Periodicals, these changes are unlikely to materially impact the third top driver of customer satisfaction: faster delivery. *Id.* at 19. According to the Postal Service, "[t]hese changes are designed to improve [] service capability which should result in meeting our service standards and service performance goals on a much more consistent basis. Consistent service performance may better align customers' expectation with actual delivery performance, which will likely drive customer satisfaction."³¹

In summary, the Postal Service takes the position that these changes are a necessary component of its broad plans to align its business model with mailer needs. The Postal Service argues that its financial analysis and market research support its contention that mailers value reliability over other considerations.

²⁸ USPS OIG Audit Report: Assessment of the U.S. Postal Service's Service Performance and Costs (NO-AR-19-008) (OIG Audit Report on USPS Service Performance and Costs), Sept. 17, 2019 at 1.

²⁹ USPS OIG Audit Report: Peak Season Air Transportation (NO-20-215-R21), Feb. 25, 2021 at 12.

³⁰ USPS-T-4 at 13.

³¹ Cintron Testimony at 32-33; Q1'21 BHT at p. 33

V. ANALYSIS

The Postal Service's proposal in this case represents a sweeping change to the service provided to a large number of First-Class and Periodicals mailers across the country. It also represents an attempt by the Postal Service to address broader market trends and align itself with consumer demand to ensure a sustainable business model into the future.

The Public Representative has undertaken a critical review to assess whether the Postal Service's representations in this proceeding accurately reflect its claim of the need for a service standard change for the affected mail classes and network and whether its business case is legitimate. As explained below, the Public Representative generally accepts the Postal Service's contentions with regard to its failures to meet current service standards and business case for the proposed changes.

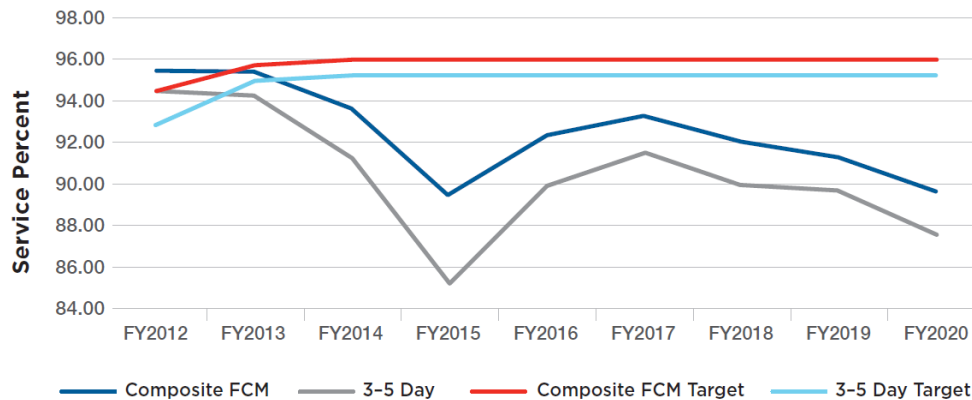
However, the Public Representative remains concerned that the Postal Service's modeling may not prove accurate, that the Postal Service may not have done enough to project mailer behavior going forward, and that the Postal Service has not effectively communicated the rationale for these changes to the general public. These issues must be addressed prior to implementation.

A. The Postal Service has Failed to Meet Current Service Standards

As the Postal Service acknowledges, it has failed to meet service standards for the past eight years. Since FY 2013, both the composite score for First-Class Mail and the three-to-five-day service standard have been below their targets. In FY 2020, the service performance target for the three-to-five-day standard was 95.25 percent. The First-Class Mail composite target for FY 2020 was 96.0 percent.³² See Figure 4:

³² USPS-T-1 at 8.

Figure 4: Postal Service Visualization of First-Class Mail Composite and Three-to-Five-Day Service Standard Performance, FY 2012 – FY 2020

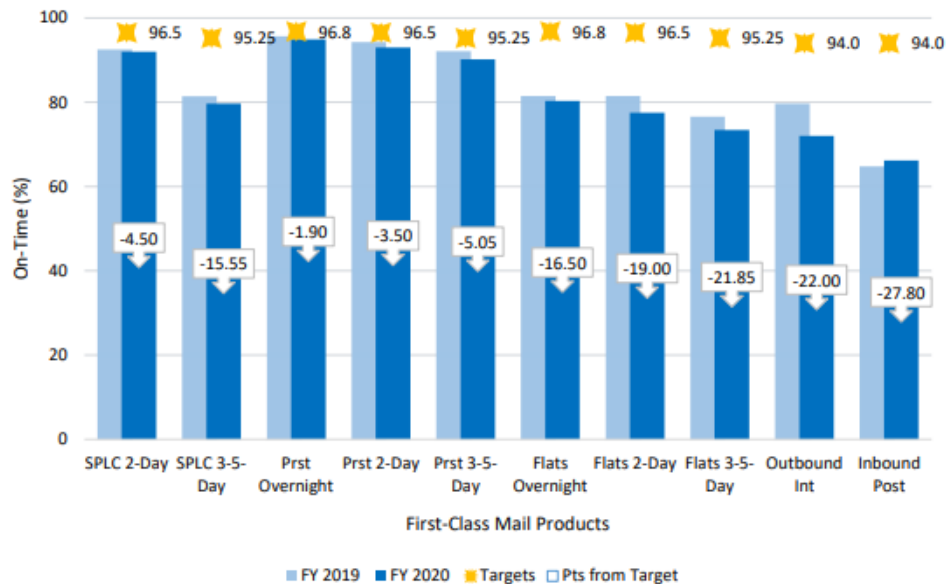


Source: Delivering for America Plan at 14

The Commission reviews service performance as part of its Annual Compliance Determination proceeding. No First-Class Mail products managed to meet their respective service performance targets for FY 2020.³³ Figure 5 shows the Commission’s findings on First-Class Mail service performance results for FY 2020 and FY 2019 relative to FY 2020 targets.

³³ FY 2020 ACD at 161.

Figure 5: Commission Visualization of First-Class Mail Service Performance Results, by Percent, for FY 2020 and FY 2019



Source: FY 2020 ACD at 161

Like First-Class Mail, Periodicals also failed to meet its service performance target for FY 2020 and many prior years. The FY 2020 service performance target for Periodicals was 91.8 percent. The Postal Service's service Periodicals performance is shown below in Figure 6.

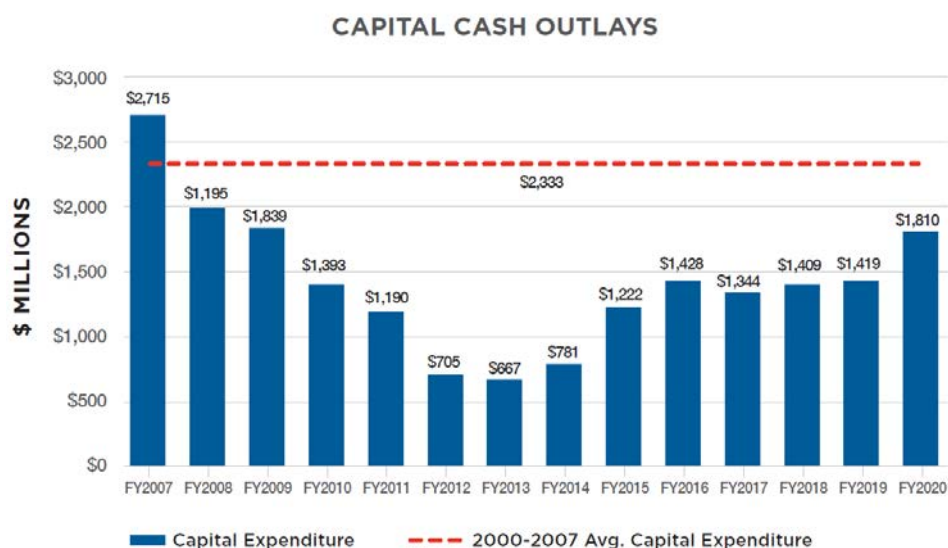
Figure 6: Witness Cintron Table Showing Periodicals Service Performance, FY 2012 – FY 2020 by Quarter

Year/Quarter	Percent-On-Time
FY2012 Annual	68.7
FY2013 Annual	82.0
FY2014 Annual	80.9
FY2015 Annual	77.7
FY2016 Annual	80.1
FY2017 Annual	85.6
FY2018 Annual	85.6
FY2019 Annual	85.7
FY2020 Q1	84.8
FY2020 Q2	87.0
FY2020 Q3	76.9
FY2020 Q4	74.3

Source: USPS-T-1 at 8

A major contributing factor to the Postal Service's service performance history has been a lack of investment. As the American population grows and businesses expand, the Postal Service remarks that they "have not made adequate investments to modernize our delivery footprint, vehicles, route structures, and platforms to serve this growing demand."³⁴ Figure 7 shows the Postal Service's annual capital expenditures since FY 2007.

Figure 7: Postal Service Visualization of Capital Expenditures, FY 2007 to FY 2020³⁵



Source: Delivering for America at 44

As demonstrated by Figure 7, the Postal Service has "been forced to substantially curtail our investments because of our financial challenges and have averaged \$1.3 billion per year."³⁶ The Postal Service states that this decreased level of investment "has led to significant underinvestment in our equipment and facilities, leading to a significant deterioration of, in particular, our vehicle fleet and retail facilities." *Id.*

³⁴ Delivering for America Plan at 15.

³⁵ The Public Representative observes that the value for FY 2008 and its respective height relative to other years is incongruous.

³⁶ Delivering for America Plan at 44.

The Postal Service acknowledges that achieving the current service standards is possible but “it would likely come with increased investment and operating costs.”³⁷ The Postal Service elaborates that investments in technology, labor and equipment, and added transportation costs could enable it to achieve current targets. *Id.* The Postal Service states that “[i]ncreasing operational costs, however, is contrary to the organization’s direction to reduce costs and improve operational efficiency, thereby helping to ensure the viability of the Postal Service in the future.” *Id.* In other words, the Postal Service maintains that achieving current service standards is not possible without a significant capital infusion.

B. The Postal Service’s Business Case is Legitimate

The Postal Service presents a compelling business case, centered on its financial analysis, for the proposed changes to services standards. As explained above, the Postal Service’s analysis shows a net positive financial impact of \$169.5 million as a result of these changes, accounting for corresponding volume declines caused by service degradation. This represents a significant margin of error should the Postal Service have overestimated the projected \$279.6 million in transportation savings. At the Postal Service’s lowest estimated amount, these proposed savings would still generate over \$60 million annually. Regardless, the Postal Service’s previous measures to optimize its surface network lend credence to the projected transportation savings. The Postal Service reports that its surface network optimization efforts have “identified over \$75 million in savings in the past three Postal quarters.”³⁸

The Postal Service’s market research appears to support this analysis, indicating that more mailers prioritize reliability over speed of delivery. The Postal Service’s Brand Health Tracker survey has found that “[r]eliability has consistently been the most predictive driver in determining customer satisfaction.”³⁹ In contrast, “the relative importance of ‘fast’ delivery has changed over time. For example, ‘fast’ delivery

³⁷ Response to MH/USPS-T1-18.

³⁸ Response to MH/USPS-T1-10(b)

³⁹ Response to POIR No. 1, question 34b.

dropped in ranking from #2 in FY 2019 to #4 in FY 2021.” *Id.* This assertion is further confirmed in the Postal Service’s table depicted in Figure 8:

Figure 8: Postal Service’s Top Five Drivers of Customer Satisfaction from 2017 to 2021

Q4’2017	Q1’2018*	Q1’2019	Q1’2020	Q1’2021
Is reliable (182)	Is reliable (182)	Is reliable (160)	Is reliable (165)	Is reliable (158)
Delivers mail on time (125)	Delivers mail on time (125)	Provides fast mail delivery (159)	Consistently delivers the mail when expected (137)	Consistently delivers the mail when expected (144)
Provides fast mail delivery (123)	Provides fast mail delivery (123)	Keeps my mail safe (150)	Provides fast mail delivery (134)	Keeps my mail safe (131)
Delivers mail to the correct address (112)	Delivers mail to the correct address (112)	Consistently delivers the mail when expected (133)	Keeps my mail safe (132)	Provides fast mail delivery (122)
Offers a wide range of mailing products/services (87)	Offers a wide range of mailing products/services (87)	Delivers mail on time (126)	Delivers mail to the correct address (122)	Delivers mail to the correct address (112)

Source: Response to POIR No. 1, question 34b

As explained above, the Postal Service does not have the ability to reliably deliver under the current service standards. The Postal Service, therefore, must choose between providing reliable service or the current service standards. The Postal Service’s assertions that the proposed standards would better align with mailer expectations is somewhat reasonable. Although the Public Representative is hesitant to rely on the USPS OIG survey cited by the Postal Service to show that 71 percent of mailers currently expect their sent mail to arrive in seven days, that finding is anecdotally consistent with general public interactions throughout this process.

In sum, the Postal Service has provided seemingly reasonable cost savings projections, based on market research that indicates these changes align with mailer expectations. The analysis indicates that the proposed changes are market justified, considering the long-term financial implications on revenue, continued volume decline, misaligned networks – both processing and transportation, market demand and the postal customer. The proposed changes more efficiently align service standards,

transportation costs, projected mail volumes/revenues, enhance performance and service reliability.

C. It is Not Clear that the Postal Service's Projections will be Accurate

It is important to note that the Postal Service's projections in this docket are entirely based upon its modeling of how these proposed changes will impact affected mailers. As explained above, the Postal Service has modeled both the financial impact and logistics of these changes. This is not unreasonable; modeling is a necessary tool for assessing changes of this scope. However, modeling is inherently susceptible to inefficiencies in implementation. The way these changes look on paper is not completely predictive of how they will look once implemented.

The Postal Service opted not to conduct operational or pilot testing, which could have provided insight into how these changes will work in practice.⁴⁰ The Postal Service stated that this type of testing was not necessary because the current service standards are "based on time and distance; therefore, the concept is well established."⁴¹ This is also not unreasonable.

As a result, though, the Postal Service must have confidence in the accuracy of its modeling, since that modeling underpins its proposal. Unfortunately, several comments made during this proceeding cast doubt on that supposition. According to the Postal Service's financial modeling expert, "[s]trictly speaking, the goal of my work in this case was not to develop the most accurate possible econometric forecast model for the Postal Service."⁴² That witness continued, remarking that "[w]hile forecast accuracy is always a desirable property of any econometric model, it was not my primary consideration in this case."⁴³ At oral argument, the Postal Service's witness on logistics modeling stated that "this is more of a directional model" and that "it is not necessarily

⁴⁰ POIR No. 2, question 4.

⁴¹ PR/USPS-T1-2.

⁴² Response to POIR No. 3, question 31.

⁴³ *Id.*

built or designed to be . . . tactical in nature.”⁴⁴ The Postal Service states that “a model is not dispositive and should accordingly be considered a decision-support tool rather than a decision-making tool.”⁴⁵

These comments are troubling given the crucial importance of this modeling to evaluating the instant proposal. There is no reasonable expectation that the Postal Service should have created a perfect model. As the Postal Service has noted, any model would be iterative and its objective here was to create a model that supported an initial “directional” decision to pursue this proposal. Nevertheless, the magnitude of the cost savings from these proposed changes and their logistical viability are key components in evaluating them. As Chairman Kubayanda noted at the hearing, “in prior N cases the Postal Service made some assertions about slowing the mail down and achieving cost savings . . . but not all those savings materialized as predicted by the Postal Service, and . . . the lower service standards are currently in place.”⁴⁶

D. The Postal Service May not Have Done Enough to Project Mailer Behavior

As explained above, the Postal Service’s analysis is predicated on historical reactions to slower delivery times. In other words, the Postal Service’s analysis here is “backward-looking” instead of “forward-looking.” However, that data is not necessarily predictive of future behaviors

There is always the potential for service changes to hit a tipping point and result in expected additional volume declines, a prospect that stakeholders consistently suggest is immediately on the horizon when the Postal Service proposes changes. Although this proposal is unlikely to represent that point, it is notable that the Postal Service seems to acknowledge the potential for changes in mailer behavior patterns.⁴⁷ Given

⁴⁴ Volume 1 – Official Transcript of Hearing Held on June 9, 2021, in Docket No. N2021-1 (pages 1-453) (Hearing Transcript Volume 1) at 252.

⁴⁵ Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service (USPS-T3), April 21, 2021 at 28.

⁴⁶ Hearing Transcript Volume 1 at 451.

⁴⁷ Response to PR/USPS-T1-3(c).

the scope of these proposed changes, it's logical that its impacts could be similarly far-reaching.

Ultimately, though, it's very unclear from the record in this proceeding how these behaviors might change. The Postal Service has not conducted analysis on what these changes will cost mailers, generally or in subsets, and, therefore, it's difficult to understand how changes like this one will affect their motivations. As noted above, operational or pilot testing could have proved instructive here but the Postal Service determined it was unnecessary. Regardless, the potential for mailer behaviors to change seems to represent a significant blind spot in the Postal Service's analysis of this proposal.

E. Communication must be improved

Throughout this proceeding the Postal Service has stated that these proposed changes are about increasing the reliability of the affected mail. The Postal Service has sought to frame its proposal in this way, emphasizing that it will improve reliability and downplaying the corresponding decrease in speed of delivery. The Postal Service states that it "has leveraged [its] extensive set of communication tools" towards "increasing awareness as to the proposal's rationale and value proposition, and the degree by which mail volume will be impacted."⁴⁸

These branding efforts appear to have been ineffective. Mailers who have engaged with this process have consistently focused on speed of delivery, repeatedly commenting that the Postal Service is "slowing down the mail." The bulk of public outreach received by the Public Representative in this process has reflected this concern. Members of the public have also expressed skepticism about the Postal Service's Delivering for America plan and some have indicated that their trust in the Postal Service and its motivations has eroded. Commenters seem particularly agitated at anticipated rate increases concurrent with these proposed service standard changes.

⁴⁸ Response to PR/USPS-T4-1.

Many of these mailers are aware that speed of delivery will decrease but are unaware of why these changes are being proposed.

It is critical that the Postal Service improves its communication with the mailers who will be affected by this change and explains the underlying rationale for this proposal. Members of the general public must have a clear understanding of the tradeoffs associated with this proposal in order to meaningfully engage in the process. Although speed of service will decrease, the Postal Service believes that this change will result in significant operational efficiencies and, perhaps more importantly, position the Postal Service to better handle long term trends in mail mix and product volume. Without understanding the underpinning reasons for this change, it appears as though the Postal Service is simply moving the goal posts on service standards to improve optics.

Notably, the Postal Service is basing the justification for this proposal, in part, on its own failure to communicate the current service standards and service performance for First-Class Mail and Periodicals. According to the OIG survey cited by the Postal Service in this proceeding, 71 percent of mailers expect their sent mail to arrive in seven days.⁴⁹ This is remarkable given that “fast delivery” consistently ranks highly as a consumer preference in the Postal Service’s surveys and First-Class Mail is its most profitable product, accounting for 41 percent of mail volume.⁵⁰ The Postal Service argues that this shows that “many customers’ expectations of delivery times may already be aligned with the proposed service standard changes.”⁵¹ It is troubling that the Postal Service appears to view this confusion as a business opportunity instead of a significant communications process failure.

The Postal Service is approaching this proposal, understandably, from a business standpoint and is concerned about branding this change favorably. However, mailers serve a dual role with regard to the Postal Service, as customers and stakeholders, and deserve as much transparency as possible from the Postal Service. In this case, the

⁴⁹ OIG Audit Report on USPS Service Performance and Costs at 1.

⁵⁰ See e.g., USPS-T-4, Attachment 1; FY 2020 Annual Report at 24

⁵¹ USPS-T4 at 13.

Postal Service's communication strategy has not been effective and, as a consequence, mailers have not gotten the benefit of a transparent explanation of this proposal's tradeoffs.

VI. CONCLUSION

The Public Representative concludes that these proposed changes are in the interests of the general public because the *status quo* is untenable and the proposed changes appear to be supported by Postal Service's business case. However, the potential issues identified above with the Postal Service's modeling, projections, and communication strategy should be addressed.

The current situation represents the worst possible outcome for the general public interest. The Postal Service expends considerable resources attempting to achieve service standard targets that it has not been able to achieve in eight years. Some mailers are provided unreliable service and the Postal Service's financial situation continues to deteriorate as volumes decline. It's clear that some action is warranted.

The Postal Service has elected to pursue increases in efficiency in lieu of additional investment. As explained above, these proposed changes will slow longer-distance mail down but will also allow the Postal Service to transport it more efficiently. This approach is reasonable given their market research and projections of the changes' impact. That research shows that most mailers already believe that First-Class Mail is slower than the proposed service standards, that most mailers value reliability over fast delivery, and that the cost savings from these changes outsize the impact of expected volume losses by a healthy margin.

The interests of the general public are best served through a sustainable Postal Service. That can only be achieved if the Postal Service is allowed to adapt its business model to a changing market. Although its decision here will be unpopular, the Postal Service has provided a persuasive business case for these changes and supported its contention that the proposed changes better align with mailer expectations and needs and will improve the Postal Service's financial condition.

For those reasons, the Public Representative supports the Postal Service's proposed changes to the service standards for First-Class Mail and end-to-end Periodicals provided the Postal Service addresses the concerns identified above prior to implementation.

Respectfully Submitted,
/s/ Samuel Poole
Samuel Poole
Public Representative for
Docket No. N2021-1

901 New York Avenue, N.W.
Suite 200
Washington, DC 20268-0001
(202) 789-6844
samuel.poole@prc.gov